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Industrial Distribution

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November 1986

Hotline:
Value added,
the key to
distributor survival

Computer/ Telecommunications Update: 1986

(Showcase: pull-out insert)

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Industrial Distribution

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* **STAFDA 1986** convention in Acapulco, Mexico November 16-19

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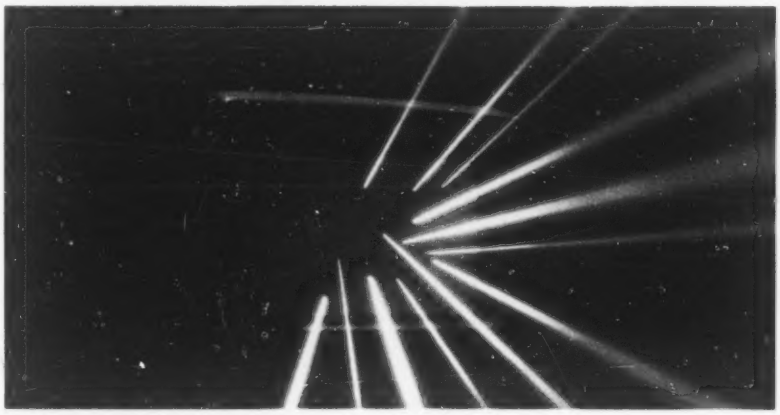

Photo by Michel Tcherevkoff

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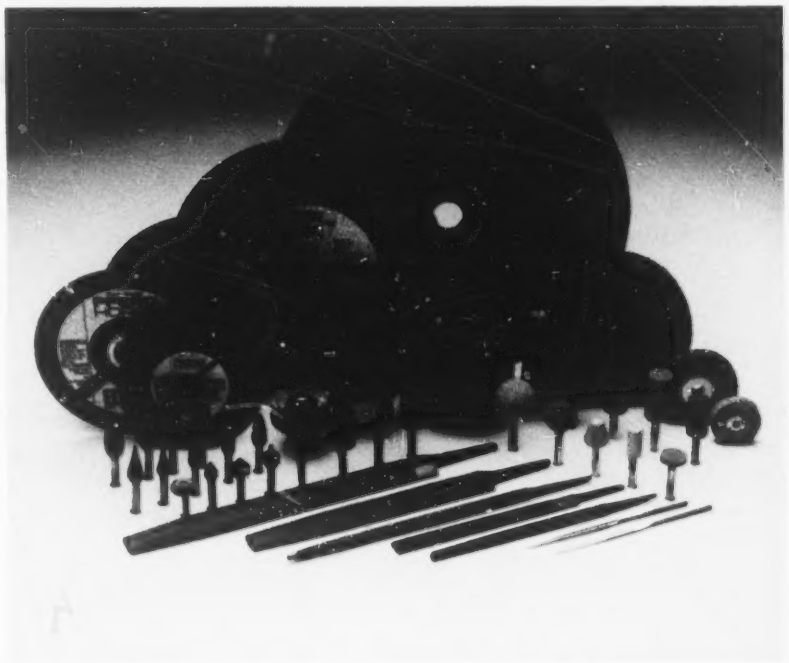
Indicators...

Two of the three prime indices of activity affecting distributors were up in July while the third was essentially flat, creating hope that distribution may have finally broken out of its listless see-saw pattern that has characterized the performance of the past several months. On a national basis, the NIDA/SIDA *Industrial Distribution Index* gained 4.5 points in July from June making it .7 higher than the Index in July, '85. Regionally, the East, Midwest and South all advanced in July—the South by a subtantial 27.3 points—while only the West declined by 1.6. Although the July numbers are encouraging, both the Midwest and the West trail their July '85 levels by 1.7 and 5.5 respectively...SIDA's *Monthly Sales Trend Report* for July over June showed a 3.50 increase for the entire association area. The largest increase came in SIDA Area I (NC, VA, WV) with an improvement of 8.66 followed by Area IV (AR, LA, OK, TX) which grew by 5.08. Area II (FL, GA, SC, Puerto Rico) increased by 2.24. The only decline was experienced in Area III (AL, KY, MS, TN) which retreated 6.44. In a July '86/July '85 comparison, the entire Association showed a drop of 7.35, a result of the 30.22 decline in Area IV from its July '85 levels...In a year-to-date '86/year-to-date '85 comparison, all areas are behind the '85 levels with the exception of Area I which grew a modest0.42... ASMMA's *New Order Index* for July dropped to 116.6 an insignificant .1 points from its June level. While not the lowest level this year, the Index has only dropped *below* the current figure six times in the last 31 months...the American Machine Tool Distributors' Assn. (AMTDA) *Total Index* for July rose a healthy 10.1% over its June level. However, a July '86/July '85 comparison shows the Index down 5.6.

tives and industry experts, articles in past issues of this publication, and personal choices of the *ID* editors.

Selection of the four nominees was based on 10 criteria:

1 - A sound management philosophy
2 - A history of success
3 - A well-grounded organization
4 - Reputation in the marketplace
5 - Marketing, sales and merchandising skills
6 - Creativity, originality
7 - Industry leadership (in associations, etc.)
8 - Warehouse efficiency, inventory control
9 - Financial acumen, profitability
10 - Value-added



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BUSINESS REPORT

Distributors ponder tax changes

With ratification of a new tax bill by both houses of Congress, distributors are making their own interpretations on what it will mean to the industry in the immediate future.

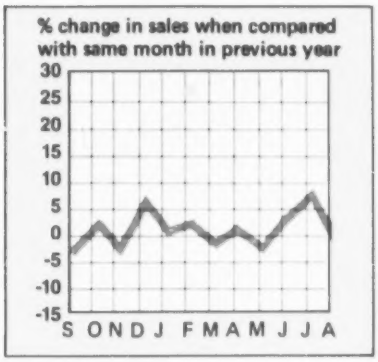
One interpretation based strictly on rates, draws an analogy to the bill's effect on the new rates for personal income tax: how much you pay depends on which of the three brackets you fall into. For example, if your business revenue is $5 million or less, you will be taxed less than you were before; if the revenue of your business is over $5 million but less than approximately $15 million, then you will get hit relatively hard, and pay more than you did before; and if you are over this mid-range bracket and on into the upper brackets, you will get hit less hard than before.

The government's theory behind this might be based on the growth of the number of small businesses in America. The revenue of a mid-sized, small business concern, may not be that high, but there are so many of them that the total tax revenue derived from them under the new bill, will be appreciable.

While paying more taxes in this mid-range bracket is a negative factor for many distribution houses, renewed capital spending in 1987 may be the positive factor that more than offsets this. Many distributors feel that there exists a strong pent up demand by manufacturers for plant expansions and renovations in order to automate. The uncertainty of what the new tax legislation would contain had held them back. Even though the new bill is not in itself generous to manufacturing, the fact that it's been approved means that these companies can now get on with their plans, an increase in capital spending will occur, and distributors will benefit accordingly.

As has been the pattern all year, sales fell in August after being up the month before. Nationally, sales were off 1%, compared to last year (see graph).

Month-to-month statistics as well as cumulative reporting for the first 8 months of the year, were also slightly negative. **—Milt Ellenbogen**



RECEIVABLES*

	Aug.'86 vs. Aug.'85			
	Gen.	Spec	Gen.	Spec.
New England	44	49	45	46
Middle Atlantic	46	43	45	41
South Atlantic	37	36	35	37
East No. Central	39	40	38	39
East So. Central	40	32	38	27
West No. Central	41	38	41	43
West So. Central	—	42	—	39
Mountain	—	40	—	45
Pacific	40	41	38	41
National	41	40	40	40

* Average days outstanding

SALES BY REGIONS (% change)

	Aug.'86 vs.Jul.'36			Aug.'86 vs. Aug'85			1st eight months'86 vs. 1st eight months'85		
	Gen.	Spec.	Both	Gen.	Spec.	Both	Gen.	Spec.	Both
NEW ENGLAND: CT, RI, MA, NH, VT, ME	−12	−16	−13	−10	−10	−10	−8	−4	−7
Connecticut	—	−14	—	—	−7	—	—	−3	—
Massachusetts	+1	—	—	−2	—	—	−2	—	—
MIDDLE ATLANTIC: NY, NJ, PA	−9	−8	−8	−7	+7	−2	−6	+1	−2
New York Metropolitan Area	−12	+3	−3	−10	+7	0	−9	+2	−2
Upstate New York	−7	−13	−10	−2	+5	+1	−4	−4	−4
Pennsylvania	−7	−17	−15	−8	−9	−9	+2	0	+1
SOUTH ATLANTIC:DE, DC, MD, FL, GA, NC, SC, VA, WV	−2	−2	−2	−7	−6	−6	−3	−2	−3
Georgia-Florida	−8	+2	−2	−12	−9	−10	−5	−5	−5
EAST NORTH-CENTRAL: OH, IN, IL, MI, WI	−1	+1	0	−10	+8	−3	+1	+5	+2
Indiana	+8	—	—	+13	—	—	+8	—	—
Wisconsin	−1	+5	+3	+6	0	+2	+13	+2	+5
Chicago	—	—	—	—	—	—	—	—	—
Michigan	−25	—	—	−8	—	—	+3	—	—
Ohio	+5	−11	+3	−12	−4	−11	−14	−15	−13
EAST SOUTH CENTRAL:AL,MS, KY, TN	+6	−13	−4	+23	−7	+6	+4	−3	+1
WEST NORTH CENTRAL: MN, ND, SD, IA, NE, KS, MO	−16	−5	−12	−18	+5	−10	−6	+2	−3
WEST SOUTH CENTRAL: AK, LA,OK, TX	−12	−2	−4	−4	+5	+3	−6	−11	−8
Texas	—	+2	—	—	−11	—	—	−12	—
MOUNTAIN: NM, AZ, CO, UT, NV, WY, MT, ID	—	0	—	—	−13	—	—	−11	—
PACIFIC: CA, OR, WA	+9	−12	+2	0	+3	+1	+5	+4	+5
L.A.-San Diego	--	—	—	—	—	—	—	—	—
Oregon-Washington	+1	−4	−2	−3	−9	−6	+3	+7	+5
U.S. TOTALS	−2	−5	−4	−3	0	−1	−1	0	−1

HOTLINE

Value added, the key to distributor survival

Distributors are discovering that value-added is one way to establish a niche in the marketplace that foreign competition can't touch

NEW YORK—Distributors, rocked by price competition from sources ranging from importers of inexpensive foreign goods who sell to price-oriented distributors, direct to end users and to retail discounters have discovered a secret weapon: *Value-Added*. Increasingly distributors are finding that although *You can't join them, you can fight them* successfully by modifying, enhancing, repackaging, servicing or providing technical and engineering support on products in a manner that cannot be duplicated by their offshore competition.

In its widely quoted study, *Future Trends in Wholesale Distribution* commissioned several years ago by the Distribution Research & Education Foundation, the research arm of the National Assn. of Wholesaler-Distributors, the authors emphasized the importance of value-added to the distributor's future growth and profitability.

The study pointed out that "The challenge to individual companies and their trade associations is to develop the capability to provide these services to remain competitive in the marketplace.

"Distributors also face the challenge of providing these services while pricing them to reflect their true value to customers and suppliers," the authors emphasize.

According to Dick Wagner, vice president of F.F. Despard, an abrasives and cutting tool distributor in Utica, NY, his firm doesn't employ salesmen. "We only employ abrasives specialists who are qualified to assist our customers with a wide range of questions concerning applications.

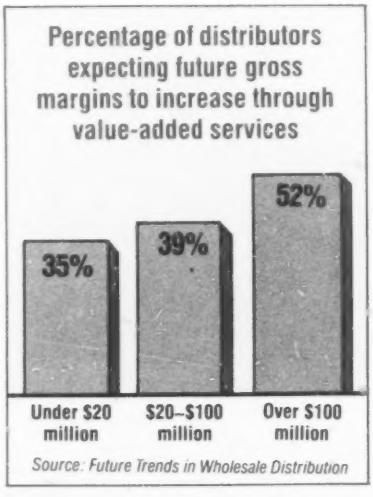
"In addition to our own in-house experts," says Wagner, "I also have access to our suppliers' engineers who are available to make calls with our people to the woodworking and metalworking firms that we work with. We throw in technical assistance as a bonus and it distinguishes us from our competition."

In Mobile, AL, Standard Equipment Co., a general line distributor, has carved out an unusual specialized niche for itself by inventorying marine closures.

Standard Equipment vice president and general manager, E. Burnley Davis, says that before his firm began inventorying the closures—ship's portholes, hatches, and doors— they were available only on special order from their manufacturers with delivery schedules that took four to five weeks during slack periods and up to seven weeks during busy times.

"The basis of our value-added is that by putting them in inventory, we can provide immediate delivery and, of course, we're compensated for that. And we're one of the few firms in the nation that are inventorying the closures because of the expense involved," reports Davis.

Standard's approach has been so successful that the company is now servicing a nationwide market that it reaches through direct mail to a mailing list of shipbuilders and marine repair facilities and with advertising placed in *Thomas Register* of industrial products and in ship-building publications. " As a result of our advertising and mail campaigns, we ship marine closures to Hawaii, San Diego, Washington State and most major port cities," says Davis.



In Colorado Springs, CO, George Hoff, division manager of Jarvis Supply Co. says that technical service has become an important plus for his firm.

"We have an engineering staff who will visit our customer's site if he has special requirements for cutting tools or measuring tools or if he is simply having a problem that he can't solve. In addition, we have increased our inventory to provide better service which we find gives us a real competitive edge over our competition, many of whom have depleted their inventory."

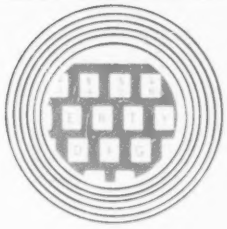
Marion E. Keller, president of the 50-year-old GRS Industrial Supply Co. in Grand Rapids, MI, says that value added is the wave of the future. "Customers are looking for suppliers to take on more responsibilties. For one coolant customer who had been accustomed to buying 50 gallon drums, we recently recommended that he purchase a 5000 gallon tank truck load of coolant. The purchase saved him a substantial amount of money."

L. David Black, president of The Aro Corp., Bryan, OH, and former president of American Supply & Machinery Manufacturers' Assn. (ASMMA) notes that "If you deal with application knowledge, properties of the product and trouble-shooting then you're making a real difference to the purchaser and it's not just a situation where you're offering a commodity and the purchaser buys it on price and he gets no help."

DREF's *Future Trends* emphasizes that "In the past, some distributors have provided services such as custom processing, packaging and repackaging. In the future, growth oriented companies will aggressively seek new 'zones of opportunity' and market their capabilities to perform value-added services previously provided by suppliers or performed by customers."

—Doug Harper

FOCUS ON SERVICES



Office machines

The microprocessor is producing a new breed of *smart* office machine that doubles and triples office productivity and slashes cost of paperwork.

Some call it the *Office of The Future*. Others call it the *Paperless Office*. By whatever name it is known, the modern office bears little resemblance to the workplace of even 20 years ago when the highest technology on view was an electrostatic photocopier and an electric typewriter.

Today's office by contrast is a temple of electronic wonders where computers, facsimile machines, electronic typewriters, dedicated word processors and telecommunications systems multiply the efficiency of clerical personnel.

Photocopiers

Modern *plain bond* photocopiers, which use any type of paper including letterhead, have replaced the listless washed-out tones of the electrostatic machines which required special, light-sensitive paper.

The new generation of photocopiers—which can reproduce in color and on both sides of a sheet of paper as well as enlarging or reducing and collating reproduced material—reproduce so accurately that they have motivated the U.S. Treasury Dept. to redesign paper currency to prevent photocopier counterfeiting.

Laser light sources are the latest improvements that have been added to photocopiers. And digital copiers are beginning to make an appearance. With digitization, a whole new range of possibilities opens up, permitting photocopiers to be double as computer printers—Xerox already markets several models—and facsimile devices.

Facsimile machines

First introduced in the early 1960s, facsimile machines are finally coming into their own in the modern office. Used in conjunction with discount telephone services, facsimile (fax) machines are able to scan and transmit documents and photographs or drawings instantaneously over telephone lines.

Recent fax developments include an increase in scanning speed permitting the transmission of a document in as little as 3-4 seconds. Microprocessor-controlled fax machines can be programmed to automatically dial another machine at any hour, allowing an unattended machine to take advantage of lower nightime telephone charges. An automatic feeder permits the transmission of a multi-page document without human intervention.

Electronic typewriters

Probably in no other area has change been so rapid as in the evolution of the typewriter which remained largely unchanged from the crude manual typewriters commercially introduced in the United States in 1868.

The last decade, however, has seen the introduction of the electronic typewriter, which uses a circular *daisy wheel* printing element. Inexpensive and available in a variety of type faces, daisy wheels are linked to the keyboard by a microprocessor which, on many models, allows automatic erasure of mistakes, visual display of the typed material on a liquid crystal display before it is committed to paper and a memory that allows keyed-in material to be stored and recalled or edited before it is printed out.

With each new product announcement in the highly competitive typewriter field, the fine line between typewriters and computers becomes less distinct.

Telephone systems

With the breakup of AT&T and an end of the phone company's monopoly on providing telephone equipment, the market for telephone equipment became glutted with inexpensive telephones several years ago. A recent shakeout has reduced the number of players as the cutthroat competition has reduced margins below the point where marginal suppliers were making a profit. The net result of this surge of telephonic development, however, has been has a quantum leap forward in telephone technology in less than a decade.

Among the recent technical achievements are telephones that can automatically recall the last number dialed; phones that can access a data base of phone numbers and call from memory; phones that can be dialed by the human voice without the need to touch the instrument; cordless phones; and cellular telephones in vehicles that provide sound clarity comparable to business and residential telephones.

Modern telephone hardware oper-

[*continued on page 112*]

U.S. UNIT SALES OF OFFICE MACHINES

	1982	1983	1984*	1985*	1986*
Photocopiers	801,350	893,395	995,070	1,114,600	1,239,160
Facsimile machines	79,500	95,400	115,200	129,600	143,600
Electronic typewriters	310,000	520,000	780,000	1,150,000	1,320,000
Personal computers	735,000	1,260,000	2,100,000	2,997,000	3,835,000

*estimate

Source: Computer & Business Equipment Manufacturers Assn.

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FOCUS...

ated in conjunction with discount long distance carriers is the moving force behind telemarketing which allows distributors to "visit" with existing and potential customers by telephone, rather than necessitating the traditional (and vastly more expensive) in-person sales call by a salesperson on the road.

Although some distributors, among them the huge Dallas-based Briggs-Weaver, eschew the impersonality of telemarketing, others embrace it as being cost-effective and productive.

Microprocessor-controlled telemarketing systems permit numbers to be dialed at random or in a pre-selected numerical or area code sequence from a data base, displaying pertinent information on a CRT giving the human operator instant access to previous ordering information and the disposition of earlier calls.

In what is perhaps the epitome of telemarketing automation, special telemarketing equipment can automatically place a call to a present or prospective customer as above but when a connection is made, a pre-recorded tape delivers a sales presentation.

Personal computers

The use of the PC has become so widespread in the office environment that it is the subject of a seperate *Product Showcase* featuring telecommunications in this issue of **ID.** In the modern office the PC has become the heart of the telecommunications system, word processing systems, data base and accounting systems. In a sense, the computer has become the ultimate office machine replacing calculator, adding machine, typewriter, filing cabinet and telephone switchboard.

Microprocessor control has permeated every aspect of the office from the lowly postage scale which gives a digital printout and automatically calculates the rate to postage meters with an RMRS (Remote Meter Resetting System) which can be "loaded" over the telephone, eliminating the need to wait in line at the post office to have additional postage added.

While the stapler, paper clip holder and Scotch tape dispenser have yet to succumb to solid state automation, if other office products are any indication it's just a matter of time.

—**Doug Harper**